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C O N F I D E N T I A L SECTION 01 OF 02 LONDON 000266

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DEPART FOR AF/RSA, SCA/RA, AND IO/PSC

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TAGS: [PREL](#) [EAID](#) [MASS](#) [UNSC](#) [KPKO](#) [UK](#)
SUBJECT: HMG BUDGET CRUNCH THREATENS TO LIMIT UK'S GLOBAL
REACH IN CONFLICT PREVENTION

Classified By: Political Minister Counselor Greg Berry, reasons 1.4 (b/d).

11. (C/NF) Summary. Ballooning UN assessed costs, an HMG budget crunch, and the falling Pound have all contributed to an internal budgeting crisis for HMG's tri-departmental conflict prevention spending, which includes UN assessed costs, discretionary spending on peacekeeping operations, elections monitoring, country-specific programs in key countries like Iraq and Afghanistan, and support to regional organizations like the African Union. Foreign Secretary Miliband, Development Secretary Alexander, and Defense Secretary Hutton were made aware of the dire budget situation at a January 22 sub-Cabinet meeting, which one contact termed "an outright disaster" where all civil service officials were asked to leave the room and no decisions were made. Requests for HM Treasury to raise the current ceiling for HMG spending on UN-related activities, or at least to peg HM Treasury contributions to UN assessed costs, have received negative responses, though Miliband has reportedly written to Prime Minister Brown requesting that HMT's decision be reversed. HMG is now being forced to look at making up the short-falls from other budget items. First on the chopping block is HMG's conflict prevention spending. The Cabinet Office has thus started a rigorous prioritization exercise, exclusively based on the UK's National Security Strategy, for all countries where the UK provides non-development assistance. While no final solution has been found, the crisis has caused many in HMG to call for more rigorous analysis of the cost of UN commitments before the Security Council mandates activities that result in increased assessed costs. Such a shift in HMG's strategy for mandating UN activities could make our discussions in New York more difficult, and the UK's reduced budget could significantly limit the UK's global reach on conflict prevention. End summary.

The Scope of the Problem

12. (C/NF) Contacts in the FCO's International Organizations Department and in the Conflict Group's Peacekeeping Team and Strategy Unit report that ballooning assessed costs in the UN, the current HMG budget crunch, and the Pound's depreciation against the USD have all caused an internal budgeting crisis for the UK's conflict prevention spending. At present, HMT has put a ceiling of GBP 374 million (approximately USD 425 million) on the amount HMG will pay for UN-related costs, which is a direct call on the Treasury's reserve. Initial estimates of UN assessed costs over the next two financial years are between GBP 424 - 470 million, which will have to be made up from other budget line items.

13. (C/NF) The current plan is to cut MOD-FCO-DFID tri-departmental spending on conflict prevention, which has

two pools of funding. The first is the Conflict Prevention Pool (CPP) for general conflict prevention programs ranging from Sudan to the Americas and is designed to work on long-term conflict issues. The second is the Stabilization Aid Fund (SAF), which is dedicated specifically to Iraq and Afghanistan. These two pools are budgeted on a three-year cycle and are funded at approximately the following levels in millions of GBP:

	FY08/09	FY09/10	FY10/11
1. Conflict Pool	110m	110m	106m
2. Stabilization	73m	73m	123m
Total	182m	182m	229m

4. (C/NF) To make up the possible GBP 100 million shortfall between the anticipated GBP 424 - 470 million in UN assessed costs and the GBP 374 million HMT has budgeted, HMG is looking at cutting all discretionary spending toward UK peacekeeping operations and taking roughly GBP 50 million from both the Conflict Prevention Pool and Stabilization Aid Fund. There have also been discussions about requiring MOD, DFID, and FCO each to pay between GBP 5 - 21 million from their departmental budgets to ensure that essential conflict spending is maintained. Additionally, any future increase in UN assessed costs would mean further reductions in conflict spending and/or greater calls on departmental budgets.

The Conclusions

LONDON 00000266 002 OF 002

5. (C/NF) Foreign Secretary Miliband, Development Secretary Alexander, and Defense Secretary Hutton were made aware of the dire budgeting situation at a January 22 sub-Cabinet meeting, which one well-placed contact termed "an outright disaster" where all officials were asked to leave the room and no decisions were made. Miliband and Alexander are reportedly particularly concerned because the budget cuts would mean eliminating projects that they have personally promised to foreign countries, such as elections observers, UK personnel secondments to UN missions, and other discretionary items. It may also mean HMG closing conflict prevention activities in entire countries. In preparation for such actions, the Cabinet Office has started a rigorous prioritization exercise, exclusively based on the UK's National Security Strategy, for all countries where the UK provides non-development assistance. If the prioritization scheme is adopted, HMG could cut entirely its conflict prevention budgets in the Americas, most of West Africa, and other countries like Rwanda and Ethiopia. It is also anticipated that the prioritization model would be adopted as an overarching mechanism for determining non-development spending on foreign countries.

6. (C/NF) HMG officials have suggested that the UK could simply stop paying its entire assessed costs bill, as other nations sometimes do. However, Ministers felt it would send the wrong message about HMG's commitment to international institution reform and increasing UN capacity. So, officials have been asked to find ways to reduce the volatility of assessed costs, some of whom have said that this may result in HMG being forced to scrutinize UN mandates more carefully when costs are involved.

Comment

7. (C/NF) HMG's global reach benefits the USG because of our shared interests and goals. And HMG's consistent spending around the globe has made it a valuable partner in most regions. If a budget crunches mean a serious reduction in what the UK has to spend on third countries, we may see diminishing HMG influence in some regions. In addition, a

cost-based approach to UN-mandated activity, especially peacekeeping operations, may make it more difficult for the USG to rely on UK support for more ambitious projects in the UN.

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